

Message Text

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ACTION EB-07

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E.O. 11652: N/A
TAGS: ENRG, ETRD, CA
SUBJ: HEAVY FUEL EXPORT LICENSES GRANTED TO
UNION CARBIDE ET AL

REF: (A) OTTAWA 4778; (B) STATE 299352

1. SUMMARY. EMBASSY ASKED ENERGY, MINES AND RESOURCES (EMR) AND NATIONAL ENERGY BOARD (NEB) TO CLAIIFY IMPACT OF SUBJECT HEAVY FUEL EXPORTS ON CRUDE EXPORTS. SENIOR OFFICIALS OF BOTH AGENCIES STATED THAT LONG-TERM HEAVY FUEL EXPORT LICENSES WILL NOT RPT NOT REDUCE CRUDE OIL EXPORTS BELOW LEVELS ALREADY PLANNED. END SUMMARY.

2. IN RESPONSE TO QUESTION RE IMPLICATIONS OF STATEMENT IN PARA 4 REFTTEL A THAT EXPORT OF A BARREL OF REFINED HEAVY FUEL WILL REDUCE EXPORTS OF CRUDE BY ONE-HALF BARREL, PRIDDLE (SENIOR ADVISOR, EMR) SAID STATEMENT IS RESULT THAT WOULD BE OBTAINED BY THEORETICAL APPLICATION OF NEB'S FORMULA FOR DETERMINING VOLUME OF CRUDE AVAILABLE FOR EXPORT LICENSING. UNDER FORMULA, EXPORT
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AVAILABILITY IS DETERMINED BY DEDUCTING DOMESTIC DEMAND AND EFFECTS OF DOMESTIC CONSERVATION FROM OTENTIAL PRODUCIBILITY AND MULTIPLYING THIS BY THE NUMBERS OF YEARS UNTIL THE DOMESTIC SUPPLY AND DEMAND CURVES ARE EXPECTED TO CROSS (CURRENTLY FIVE YEARS) OVER TEN (I.E. MULTIPLY BY FIVE-TENTHS OR ONE-HALF).

IT CAN BE SEEN THAT ADDING ONE BARREL TO DOMESTIC DEMAND, AS WOULD BE THE CASE IF DOMESTIC REFINERS NEEDED AN EXTRA BARREL TO PRODUCE THE RESIDUAL FUEL FOR EXPORT, WOULD REDUCE EXPORT AVAILABILITY BY ONE-HALF BARREL.

2. PRIDDLE ASSUMES STATEMENT IN REFTEL A WAS BASED ON ASSUMPTION THAT OIL TO BE REFINED IN CANADA FOR EXPORT TO UNION CARBIDE ET AL WOULD BE AN ADDITION TO DOMESTIC DEMAND. HE BELIEVES, HOWEVER, THAT LONG-TERM EXPORTS OF REFINED HEAVY FUEL ARE MERELY CONTINUATION OF EXPORTS PREVIOUSLY COVERED BY SHORT-TERM ARRANGEMENTS. TO EXTENT THIS IS TRUE, THE CRUDE NECESSARY FOR DOMESTIC REFINERS TO PRODUCE THE REFINED PRODUCTS WILL NOT BE A NEW ADDITION TO PREVIOUSLY ANTICIPATED DOMESTIC DEMAND. IN OTHER WORDS, PRIDDLE SAID, NEB HAS PROBABLY ALREADY INCLUDED THESE AMOUNTS IN ITS CALCULATIONS OF EXPORT AVAILABILITY AND THEREFORE THE LONG-TERM HEAVY FUEL EXPORT LICENSES WILL NOT REDUCE CRUDE OIL EXPORTS BELOW LEVELS ALREADY PLANNED.

3. SEE PAGE 44 OF NEB'S SEPTEMBER 1975 REPORT ON "CANADIAN OIL SUPPLY AND REQUIREMENTS" FOR FULL DESCRIPTION OF EXPORT FORMULA.

4. PRIDDLE ALSO PROVIDED ADDITIONAL DETAIL ON THREE PENDING LICENSE APPLICATION MENTIONED PARA 3 REFTEL: IMPERIAL TO CONSUMERS POWER IS FOR 18.3 MILLION B/D; IMPERIAL TO EXXON, 7.5 MILLION B/D; AND SUN TO DETROIT EDISON 4 MILLION B/D.

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5. EMBASSY ALSO DISCUSSED LONG-TERM HEAVY FUEL EXPORTS WITH NEB MEMBER BILL SCOTLAND WHO PRESIDED AT HEARINGS ON THESE LICENSE APPLICATIONS AND WROTE BOARD'S REPORT ON THEM. HE CONFIRMED PRIDDLE'S STATEMENT AND ADDED THAT BECAUSE THE EXPORT OF THIS BY-PRODUCT OF PETROCHEMICAL PRODUCTION DOES NOT INCREASE CANADA CRUDE PRODUCTION, NEB DOES NOT LINK THESE PRODUCT EXPORTS TO DETERMINATION OF CRUDE EXPORT LEVELS. SCOTLAND ALSO NOTED POLITICAL PROBLEM FOR GOC MENTIONED PARA 4 REFTEL A. HE SAID GOVERNMENT CRITICS, LOOKING AT TOTAL HYDROCARBON EXPORTS, MIGHT WELL CHARACTERIZE THESE LONG-TERM LICENSES AS AN "END-RUN" ON CRUDE EXPORT POLICY. HE SAID THIS CRITICISM OVERLOOKS PROBLEM OF WHAT TO DO WITH HEAVY PETROLEUM BY-PRODUCTS OF PETROCHEMICAL PRODUCTION THAT ARE SURPLUS TO CANADIAN NEEDS. THIS PROBLEM CAN ONLY BE SOLVED BY EXPORTING BY-PRODUCTS OR REFITTING CANADIAN REFINERIES TO CRACK THE HEAVY

BY-PRODUCTS AND PRODUCE A WIDER RANGE OF LIGHTER PRODUCTS. THE LATTER ALTERNATIVE, HE SAID, WILL BE VERY COSTLY AND PROBABLY NOT AN OPTIMAL ECONOMIC SOLUTION.

6. EMBASSY TRANSMITTING BY AIRGRAM NEB LICENSES, REPORT, AND NEWS RELEASE REGARDING SUBJECT HEAVY FUEL EXPORTS.
ENDERS

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